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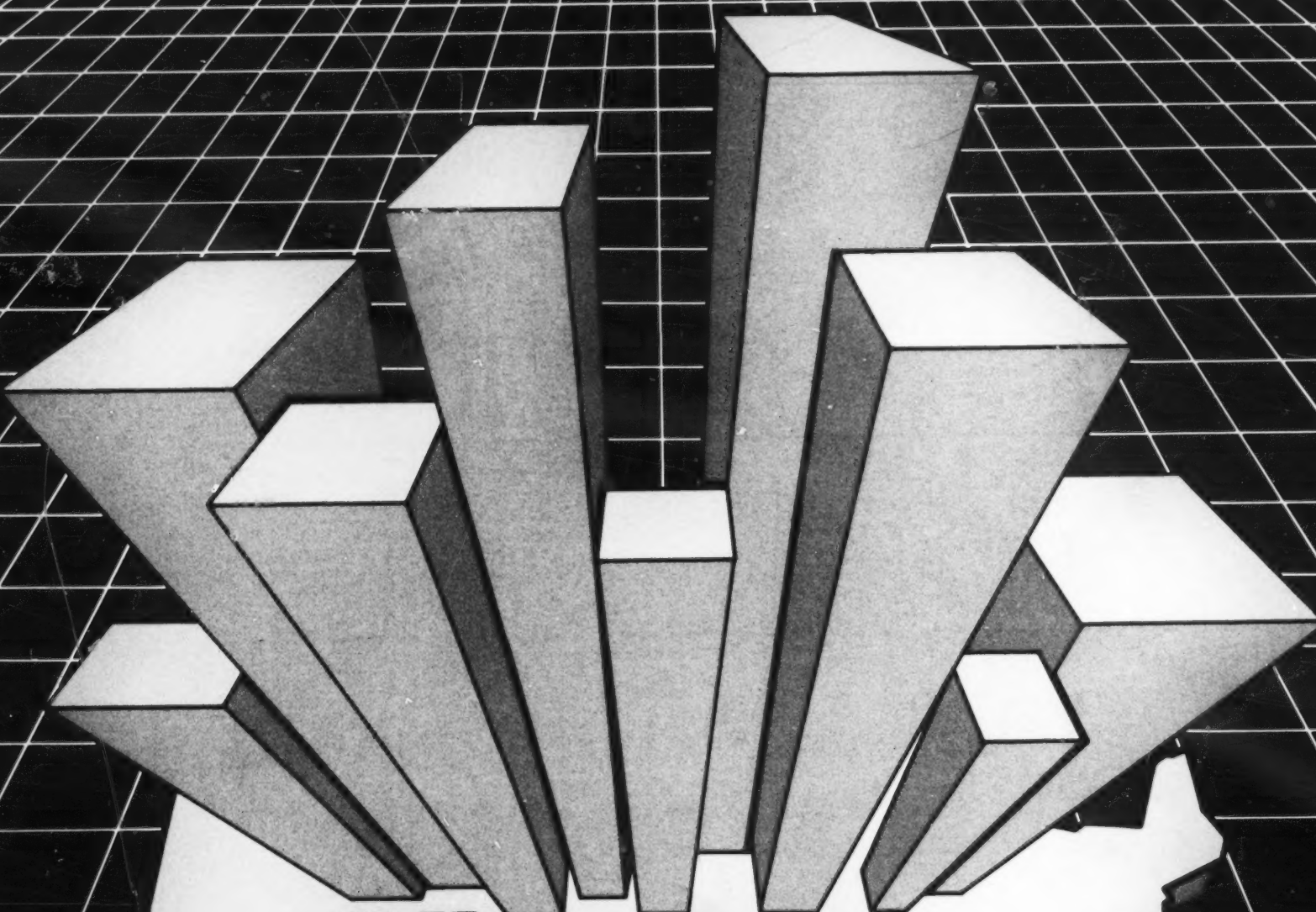
# Pensions & Investment Age

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**Who owns  
corporate  
AMERICA?**

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## Women's pension measure

## Senate committee backs bill

By Joel Chernoff

WASHINGTON — Taking almost everyone by surprise, the Senate Finance Committee approved Oct. 25 a consensus bill that would enhance women's pension rights.

The bill is expected to go to the Senate floor shortly. It had just been introduced a week before by a bipartisan group of 31 U.S. senators that was led by Bob Dole, R-Kan., Russell Long, D-La., and Edward M. Kennedy, D-Mass.

The measure, S. 1978, was tacked onto the shell of a House-passed bill originally designed to create a Caribbean Basin Initiative, H.R. 2769. That move was necessary because the House is the only chamber allowed by the Constitution to originate tax legislation.

Separately, Rep. John N. Erlenborn, R-Ill., said earlier that day that he would confer with Rep. William Clay, D-Mo., on whether they would seek to attach their bill to revise the single-employer termination insurance system onto the women's pension bill.

Rep. Erlenborn also said he hoped changes involving reporting and disclosure might be considered.

Rep. Clay chairs the House labor subcommittee dealing with pensions; Rep. Erlenborn, who is retiring after this term, is the ranking minority member.

However, that possibility became clouded when the Senate Finance Committee approved the women's pension bill, which could pre-empt consideration by the House of similar measures.

The only major provision in S. 2769 viewed to be controversial is

The involvement of 31 senators virtually assures Senate passage. In particular, the leadership of Sen. Dole, who chairs the Senate Finance Committee; Sen. Long, the ranking minority member of that committee; and Sen. Kennedy, ranking minority member of the Senate Labor and Human Resources Committee, is significant.

The measure incorporates provisions of S. 19, which Sen. Dole had sponsored, as well as S. 888, sponsored by Sens.

Dave Durenberger, R-Minn., and Bob Packwood, R-Ore.; S. 1700, introduced by Sen. Paula Hawkins, R-Fla.; and reflects the ideas of Sens. Mark Hatfield, R-Ore., and Ted Kennedy in S. 918.

"Part of the difficulty in drafting this legislation was the need to reconcile the concerns of the employer who wishes to provide incentives for long and consistent service with the needs of women whose work patterns differ from the traditional mode," Sen. Dole said.

The main provisions of H.R. 2769 (S. 1978) would:

- Lower the minimum age for participation and vesting to 21 from 25.
- Reduce the minimum age for

Continued on page 55

*"Part of the difficulty was the need to reconcile the concerns of the employer with the needs of women"*

one requiring that survivor benefits be offered if a plan participant is age 45 and has 10 years of service. Business groups have testified this rule would be too costly, and the administration omitted it from its bill, H.R. 4032.

In the past few years, Congress has been considering several bills that increase benefits for female participants and spouses of male participants.

While the administration has not yet voiced its opinion on the Senate bill, "This is the bill the action is on," an observer stated.

## Chicago police trustees pick 7 managers for fund

By Kimberly Blanton

CHICAGO — Board members for the \$700 million Chicago Policemen's Annuity & Benefit Fund selected seven Chicago firms to share management of the fund's assets.

The board of trustees picked a variety of Chicago-based investment firms and two banks.

Alliance Capital, previously sole manager for the fund, will be retained to manage part of the fund in an equity account. Kemper Financial Services Inc. also will manage equities.

American National Bank and

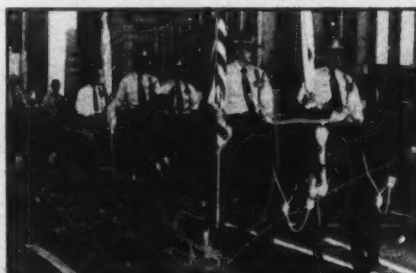
Trust Co. of Chicago will be given some of the fund's assets for an index fund.

Capital Supervisors Inc. and The First National Bank of Chicago will run balanced accounts for the police fund. Penmark Investments Inc. and Lincoln Capital Management Co. will manage bonds, according to James Waters, assistant controller.

The nine-member board, aided by the consulting firm of Ennis, Knupp & Gold, consid-

ered managers in Boston, New York, Minneapolis and Dallas, but favored Chicago firms.

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## Highlights

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Cover illustration by Jim Bakasetas

## Late news

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Kellogg Foundation, the Michigan State Employees Retirement System and the Stewart Mott Foundation.

## Chrysler Corp. hires 1

DETROIT — Chrysler Corp. added Crocker Investment Management Corp., San Francisco, to its battery of fixed-income managers, a spokesman for the automaker confirmed. Chrysler did not reveal the amount allocated, but a source said it was \$25 million.

## Northern appointed

CINCINNATI — Procter & Gamble Co. has chosen Chicago's Northern Trust Co. to manage a \$25 million balanced account for the profit-sharing plan of its Norwich Eaton Pharmaceuticals division in Norwich, N.Y.

## McCausland named

SACRAMENTO, Calif. — Sidney C. McCausland has been named executive officer of the \$20 billion California Public Employees Retirement System. Mr. McCausland, who had been deputy executive officer and until recently acting chief investment officer for the fund, will succeed Carl Blechinger, who will retire Dec. 31.

## Lambrix exits Armco

MIDDLETOWN, Ohio — Robert Lambrix has left Armco Inc., where he was treasurer and vice president of finance. Mr. Lambrix joined Baxter Travenol Laboratories Inc. as vice president of finance Oct. 25.

He could not be reached for comment.

## Atlantic Financial case

BOSTON — U.S. District Judge Joseph L. Tauro has denied motions by Atlantic Financial Management Inc., some of its principals and A.G. Becker Inc. for dismissal of claims for fraudulent activity brought against them under Section 10 of the Securities and Exchange Commission's Act of 1934. The claims were filed by former clients in connection with investment in an oil stock.

He also refused to dismiss action by the plaintiffs under sections 404(a) and 406 of ERISA. The judge did dismiss actions under New York Stock Exchange, American Stock Exchange and NASD rules,

other sections of the SEC Act and Massachusetts General Laws.

## S&amp;L comment period

WASHINGTON — The Securities and Exchange Commission voted Oct. 27 to ask for comment on whether savings and loan institutions that set up trust departments to handle pension money should be exempt from registering as investment advisers.

Banks are exempt from registration rules; five S&Ls had written the SEC requesting a "no-action" letter enabling them to avoid registration, but the commission turned down their requests, deciding that the issue should be presented to the public.

However, the Department of Labor has never been asked whether S&Ls are "investment managers" under ERISA.

## Minard to join firm

NEW YORK — Frank Minard, head of Equitable Life Assurance Society's pension investment consulting unit, will join Oppenheimer Capital Corp. in November as a senior vice president. Mr. Minard will market stocks, bonds and balanced investment products to large corporate and public pension funds.

## Bank director named

NEW YORK — Barbara Thomas, who is retiring from the Securities and Exchange Commission in November, will become the first woman executive director of Samuel Montagu & Co. Ltd. Jan. 1.

Ms. Thomas, an expert in international securities law, will maintain offices in Hong Kong and New York for the U.K.-based merchant bank.

## Citicorp fund returns

NEW YORK — A special situations stock fund managed by Citicorp Investment Management earned a total return of 38.7% during the first nine months of 1983, and 84.7% for the 12 months ending Sept. 30.

Specialty funds, such as emerging health care stocks, which jumped 29.7% during the nine-month period and 62.6% for the year, beat the Standard & Poor's 500 stock index, which was up 22.1% and 44.1%, respectively, for the same time periods, said Peter Vermilye, senior vice president and chief investment officer.

## Employees win conversion suit

By Kimberly Blanton

CHICAGO — A judge has ruled in favor of Velsicol Chemical Corp. employees who charged their employer deprived them of some investment income when it converted a profit-sharing plan to a pension plan.

Judge Stanley Roszkowski of the Northern District Court of Illinois Eastern Division agreed with the 563 employees represented in the class action suit filed by Robert Hickerson, a former Velsicol employee.

The company will appeal the decision, according to Glenn Kanwit, partner at the Chicago law firm, Hopkins & Sutter, which is representing Velsicol.

In April 1975, Velsicol, a division of Northwest Industries Inc., turned the assets in its profit-sharing plan over to a defined benefit

plan. Employees claimed that in doing so, the company deprived them of some of the return that accrued to the profit-sharing assets after they were placed in the new plan.

After transforming its employees' benefit plan, Velsicol attributed only 5% of the new plan's 11.5% average annual return to the assets previously under the profit-sharing plan, the suit states. The 11.5% return was earned between the time of conversion in 1975 through 1981. All profit-sharing plan assets, some \$4.4 million, were placed in the new plan.

A defined benefit plan, which is insured by the Pension Benefit Guaranty Corp., bases the level of retirement benefits on an employee's salary. Under a defined contribution plan, like a profit-sharing plan, the employer — and

Continued on page 86

# Who owns corporate America?

*As institutional revolution peaks, market transformation clouds issue*



**T**HE NEXT 20 years will complete an economic revolution in the country that has brought about the collectivization of the ownership of corporate America.

By 2000, majority ownership of corporate America will have slipped from the hands of investors individually into the hands of investors collectively.

This quiet revolution has been under way for 40 years. But instead of weakening capitalism, or eliminating it, this revolution has strengthened it by making more than 130 million Americans shareholders in the nation's productive enterprises through giant investment institutions.

This capitalist revolution, parts of which have been but dimly perceived throughout the past 40 years, will have a profound impact on the very social fabric of the United States. For if it is institutions that will own assets on behalf of most Americans, then who will control the institutions, and who will ensure they act in the best interests of their beneficiaries? What control will the institutions have over the corporations?

At the heart of these concerns is a little-understood American institution — the pension fund — that is only now evolving as an asset pool in such socially advanced societies as Sweden. But this quiet revolution involves more than pension funds. Since the passage of the Economic Recovery Tax Act in 1981, it also has involved mutual funds, insurance companies, even banks and brokerage houses, for ERTA gave a new impetus to the institutionalization of saving and investment.

For the past four decades, however, pension funds have been the major factor in the institutionalization of the U.S. equity markets, to the consternation of some.

Whereas in Sweden the government has introduced controversial legislation to establish "workers' funds" financed by increased corporate taxes to buy stock in the companies on the open market on behalf of the workers, U.S. pension funds have been buying stock for workers for more than 50 years.

The "workers' fund" concept is regarded as revolutionary. Yet through such "workers' funds" — alias pension funds —

American workers already own more than 20% of the outstanding stock of the nation's 500 largest industrial companies. Looked at another way, at least 50 million American workers, and perhaps as many as 60 million, own stock in some of America's premier companies through pension funds.

The pension funds have been a major force because of their enormous growth since the end of World War II.

The assets of the nation's private and state and local government pension funds totaled only \$17.2 billion in 1950. But by 1980, this had jumped to \$769.8 billion and by the end of 1982 it was estimated to have topped \$1 trillion. The pension assets have grown at an almost 15% compound annual rate since 1950 under the pressure of new fund formation, sponsor contributions and market income and appreciation. Almost half of that \$1 trillion is invested in common stocks.

#### Other forces

Pension funds were not the only force for institutionalization of the capital markets during the past 40 years. Mutual fund assets also boomed. Total mutual fund assets in 1950 were only \$2.5 billion, and they grew to about \$70 billion in 1982 (excluding money market funds). Between 25 million and 30 million Americans own stock through mutual funds.

The 1950s and 1960s also were boom periods for insurance companies, endowments and foundations. Life insurance company assets in 1950 totaled \$64 billion; this had grown to \$617 billion by the end of 1982, the last year for which figures are available. Property and casualty insurance company assets grew from \$17.9 billion in 1953 to \$248 billion in 1982.

Personal trust assets grew from \$108 billion in 1970 to \$239 billion at the end of 1982. More recently, employee stock ownership plans have given 3 million to 4 million workers part ownership in about 6,000 U.S. companies.

The latest impulse toward institutionalization of investment in the United States was the liberalization of individual retirement accounts and 401(k) salary reduction plans.

Most of the IRA assets are flowing into banks and savings and loan associations, but about 25% is flowing into mutual funds, giving them a new boost. Mutual funds also are expected to get most of the 401(k) plan assets.

The evidence suggests, however, that the trend toward institutionalization of the markets will peak within 20 years. The insurance industry seems near a peak, unless there is innovation in the field, because the population is near a peak. For the same reason, pension fund growth is likely to peak as existing plans mature and new plan formation is discouraged by congressional action, and mutual fund growth also might slow. Before the trend toward institutional ownership of corporate America peaks, however, institutions will control more than 50% of the stock of major corporations.

About 30% of the stock in the major corporations will be held by institutions on behalf of the nation's corporate and public employee pension funds.

#### Abundant evidence

The evidence of increasing institutional ownership is abundant. Large block activity, an indicator of institutional involvement in the equities market, has been increasing steadily for nearly 20 years and breaking records along the way.

More than 7.2 billion shares were traded on the New York Stock Exchange in blocks of 10,000 or more shares in the first nine months of 1983, representing an unprecedented 44.64% of total reported volume on the exchange. In all of 1982, 6.7 billion shares were traded in large blocks, accounting for 40.9% of total trading.

In 1981, large block trading represented 3.7 billion shares, or 31.8% of total NYSE trading volume.

It accounted for the trading of only 450.9 million shares, or 15.34% of total reported volume, in 1970.

In 1965, when block trading became a discernible element and the NYSE began recording the statistic, such transactions comprised merely 48.3 million shares, 3.1% of the total reported volume. The burgeoning growth in institutional block trades has become a daily reminder for Wall Street on who is paying the piper and fueling the stock markets.

In September 1983, an average 1,461 block trades crossed the tape daily — roughly 4.06 per minute, surpassing the 1982 average of 2.8 trades per minute. In 1981, the average was 575 block trades daily, or 1.6 per minute.

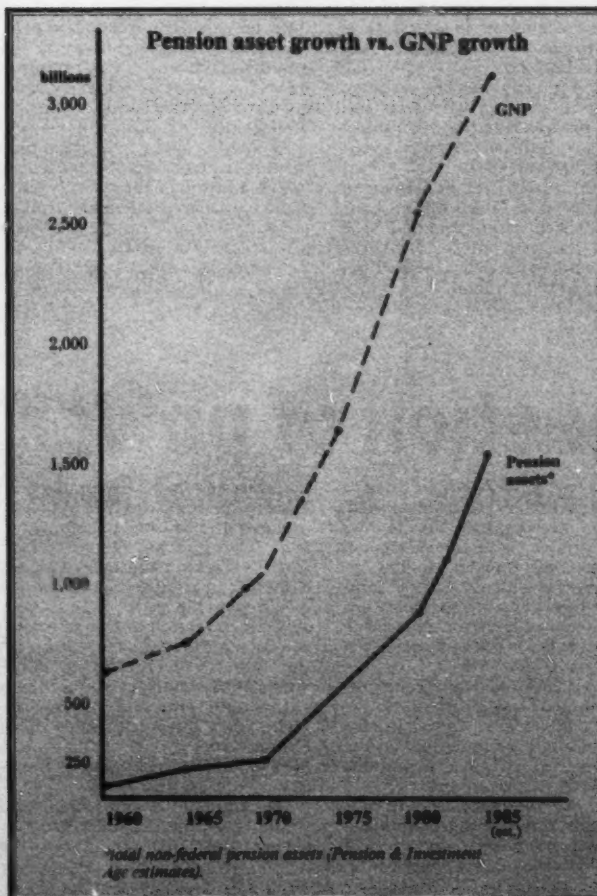
The establishment of the pension fund industry, its steady growth and its ready use of equities as an investment vehicle in recent decades is at the heart of this increase.

But the strength of pension assets might suffer a blow if there is legislation that shifts the onus of savings to the individual by offering greater tax incentives to save. Such a development could be linked to giving corporations bigger tax breaks for R&D spending, or legislation that could alter the

*Continued on page 24*

*The assets of the nation's pension funds totaled only \$17.2 billion in 1950. By 1980, this had jumped to \$769.8 billion and by the end of 1982 it was estimated to have topped \$1 trillion.*

**By Pavan Sahgal**



# Who owns corporate . . .

Continued from page 23

tax-exempt status of pension funds. "People always look at this pile of pension assets, assuming that it is going to grow forever," said Alicia Munnell, vice president and economist at the Federal Reserve Bank of Boston. "It's not going to grow forever. At some point you are going to have a relatively mature system."

Investment counselors expect the growth to continue through the '80s, especially as pension assets continue to swell and investment in tangible assets like real estate is relegated to second place.

"This is the decade for financial assets," declared Peter H. Vermilye, chief investment officer at Citibank. "That's very clear. Tangible assets were valued in the '70s. They're taking a back seat in this decade."

"When institutions control 40% of the equities of the country and move those funds around very rapidly, you have to take them seriously as a force in the market."

## Who owns the stock?

The increase in block trades suggests surging institutional activity, and by implication, ownership of stocks. Yet other figures seem to challenge this perception. They show individuals still hold the largest percentage of stock in America. Federal Reserve flow of funds numbers, sacrosanct statistics, show

households owned 70.9% of the total equities outstanding as of June 30. The institutional share was 24.52%, including 11.93% held by private pension plans and 3.87% owned by state and government retirement funds. Foreign investors held 4.57% of the total market.

NYSE figures, on the other hand, show in 1980, institutions owned more than 35% of NYSE stocks. Other statistics show the institutions own almost 40% of the Fortune 500 industrials.

According to Pensions & Investment Age's estimate, institutional investors owned roughly 38% of total equities outstanding of the publicly traded Fortune 500 firms on the NYSE at the end of 1981 versus 17.2% in 1960.

Institutional ownership of many companies is far higher. For example, in 1981 institutions owned 89% of AMP Inc., 80% of Mattel Inc., 79% of Lockheed Corp., 78% of SmithKline Beckman Corp., 78% of Gannett Co., 77% of Motorola Inc., 77% of Bausch & Lomb Inc., 77% of Nalco Chemical Co., 72% of Kellogg Co. and 71% of Avon Products Inc. While the figures for these particular stocks might be very different today, other stocks undoubtedly are as heavily owned.

A Salomon Bros. source declared: "Federal Reserve numbers (on institutional participation in the stock market) are useless."

In Salomon's experience — and others on Wall Street tend to concur — institutional investors are the uncrowned once-and-future king of the financial market place.

There are some who disagree, of course, and point out that market dominance by individuals and institutions might be another cyclical phenomenon. Before the Civil War, for example, investment bankers were the ones who financed the railroads and national development.

"Numbers from the various sources do not make sense," said Laszlo Birinyi Jr., vice president, equity market analysis, at Salomon. "I am a block trader, and I know what is going on in the market-place. We buy and sell stock, and we know whether they are going under nominee names, or whether they are going from this account or that account."

"In the first place, actual numbers aren't even compiled by firms until nine months after the calendar year. So how can the Federal Reserve tell you every three months what the actual numbers are when the corporations do not even know?"

"The revisions in these numbers can be pretty dramatic. As in 1977, for instance, when the Labor Department found the SEC statistics on pension funds were off by \$100 billion or so. That's a huge revision."

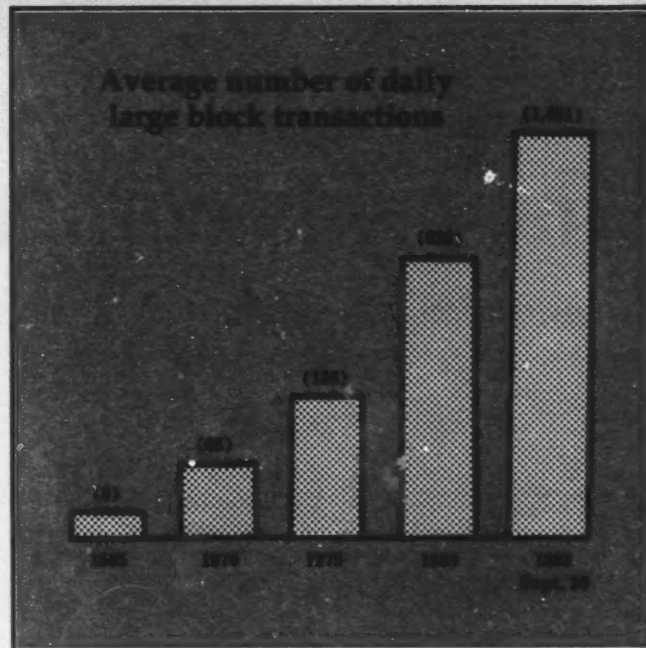
## Individual ownership

Various factors suggest direct ownership of stock by individual investors might wane in the long term. The trend does not deny the importance of individual investors. Rather, it attests to the complexity of the information that the computer era is spitting forth, intimidating the individual and increasing the need for risk diversification and a sophisticated understanding for anyone to profit from financial assets.

More and more individuals are tending to own stock indirectly via such diversified assets as mutual funds and pooled IRAs, which are managed by institutions or independent investment counseling firms, and the trend is likely to burgeon as the reality of the financial markets hits home.

In 1980, the NYSE reported 133 million Americans indirectly owned corporate stocks through pension plans, mutual savings banks and life insurance policies, compared with 32 million who owned shares directly.

"I think individuals have no business owning stocks (directly)," said Fischer Black, professor of finance at the Massachusetts Insti-



tute of Technology's Sloan School of Finance, and an authority on the capital markets.

"Individuals can get better diversification owning a mutual fund or a defined contribution pension fund. They should not go ambling after A, B or C stock, with the exception of certain very wealthy individuals who can diversify, even though they hold individual stocks, and corporate managers who own stock in their own company."

In the 1950s, individual investors had reaped the rewards of direct investments in the stock market while institutions, in a conservative posture, tended to favor parking money in fixed-income securities.

In the early 1960s, institutional investors — mainly pension funds and insurance companies — sighted the bulging pockets of the individuals, rich with their stock market gains, and began to gravitate toward equities as a viable and rewarding investment vehicle.

Pension fund money has provided the single greatest increase in the capital markets since the 1960s.

Industry observers project the increase in pension fund assets is likely to continue through 2000, before leveling off.

P&I Age estimates the nation's pension assets — private, state and local government — probably reached a little more than \$1 trillion at year-end 1982.

Of these, private non-insured assets reached \$544.3 billion, private insured assets reached \$223 billion and state and local government assets reached \$236 billion, totaling \$1,003.3 billion.

The figures were calculated by extrapolating the latest available figure for each type of fund by the historical growth rates. These growth rates are around 15% a year.

If the growth rate should drop to 9% from now on, the total pension assets will reach \$3 trillion by 1995, as predicted by former President Carter's Retirement Commission. If the growth rate should drop only to 12%, the funds will reach \$3 trillion by 1992 and \$4.3 trillion by 1995.

Between 1960 and 1970, pension assets swelled 174%, from \$71.5 billion to \$196 billion, money that steadily was plowed into the capital markets.

## The effect on capital

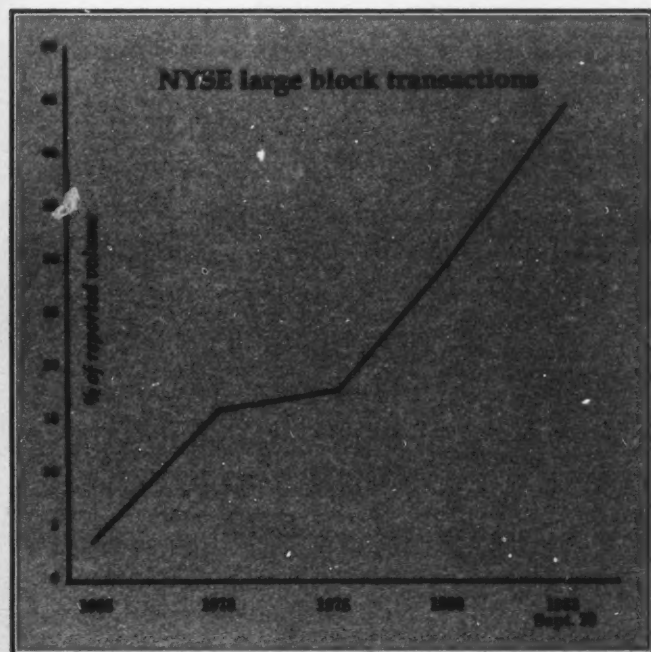
The impact of the institutionalization of the market on capital formation is a matter of dispute.

It could help accelerate industrial growth, some claim. They argue it makes both the capital raising process and the allocation of capital more efficient. Others disagree, citing the risk-averse nature of institutions.

In the reasoning of those who look favorably on institutionalization, more efficient allocation of capital means early retirement for anachronistic and weary businesses, and greater efficiency and economic growth in the nurturing of new ones.

"A lot of people would claim that institutions tend to be very conservative and that, consequently, this could slow down economic growth or that you could concentrate economic growth in the hands of fewer companies, larger com-

Continued on page 26



## \$1 trillion in pension fund assets

# Question of ownership is a question of power

By Nancy Webman

DALLAS — The U.S. capital markets are being fueled by a \$1 trillion source of capital with no clear owner, albeit plenty of volunteers who want to assume that role.

That source of capital is pension fund assets, money which has become an integral part of financing corporate America, from stocks and bonds to venture capital and real estate.

Debate over who owns and controls those assets is not new. What is new, however, is a growing belief that it is becoming increasingly necessary to answer the question. That need stems from recent occurrences in the pension area, includ-

ing plan terminations and reversions of excess assets, non-cash contributions, social investing and the use of pension assets to ward off corporate takeover attempts.

Legally and technically, pension assets are the property of a trust, a third-party beneficiary trust created by a corporation, a government or a union for the exclusive purpose of providing benefits to plan participants.

But what sounds good in theory is not always so cut and dried in practice. Such is the case with the ownership and control of pension assets.

Economists, professors, money managers, sponsors, attorneys and other professionals in the pension

field repeatedly point to the ambiguity of the issue. Some even jokingly compare it to the search for the meaning of life.

"There's an answer to the meaning of life; that's death. There's no answer to who owns the pension assets," said Peter Drucker, Clarke professor of social science and management at the Claremont College Graduate School in Claremont, Calif.

Jeremy I. Bulow, a professor in the graduate school of business at Stanford University, said the waters have been muddied further by recent events.

When Grumman Corp. used pension assets to purchase company stock in an alleged attempt to fight

a takeover by LTV Corp., Professor Bulow said, plan participants sued, and the interpretation that follows is that the assets of the Grumman plan are meant to be for the employees. Yet more than 100 companies have terminated their pension plans and have recaptured the excess assets for use in their corporate coffers.

"It's a logical contradiction," Mr. Bulow noted.

At first glance, another cause for concern might be the effect on the economy of this huge pool of money that has an undefinable owner. But the more than 12 professionals interviewed minimized that concern, referring to the fact that plan trustees are empowered

by law to direct the investments of these assets and/or to hire others to orchestrate the investments. Buying, selling, trading and other functions within the marketplace continue regardless of the debate over ownership.

If plan participants had more control over the assets in their pension funds, "we probably wouldn't see dramatic changes because they still would be interested in the highest rate of return," said Alicia Munnell, vice president and economist at the Federal Reserve Bank of Boston.

Ms. Munnell predicted the result would be an increased diversity of investments into such areas as

Continued on page 76